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UNCLAS THE HAGUE 001840

SIPDIS

DEPT FOR EB/IFD/OMA AND NEA/I

E.O. 12958: N/A

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SUBJECT: DUTCH AGREE TO PARTIAL DEBT CANCELLATION FOR IRAQ;
WANT FOCUS ON ARREARS, NEAR-TERM FLOWS

1. DUTCH DEVELOPMENT AID MINISTER AGNES VAN ARDENNE ANNOUNCED JULY 16 THAT CANCELLATION OF PART OF IRAQ'S 245 MILLION EURO (APPROX USD 300M) DEBT TO THE NETHERLANDS WOULD BE NECESSARY. MINISTER VAN ARDENNE'S STATEMENT, WHICH CAME IN RESPONSE TO A PARLIAMENTARY INQUIRY, NOTED THAT THE IMF'S DEBT SUSTAINABILITY ANALYSIS ON IRAQ, PRESENTED TO PARIS CLUB CREDITORS IN JUNE, INDICATED THAT FULL REPAYMENT OF THE DEBT, EVEN ON A DEFERRED BASIS, WOULD BE IMPOSSIBLE, NECESSITATING A PARTIAL WRITEOFF. VAN ARDENNE ADDED THAT THE EXACT AMOUNT OF THAT WRITEOFF REMAINED TO BE DETERMINED.

2. MINISTER VAN ARDENNE'S STATEMENT WAS THE FIRST PUBLIC ACKNOWLEDGEMENT OF DUTCH GOVERNMENT SUPPORT FOR PARTIAL DEBT CANCELLATION FOR IRAQ, ALTHOUGH FINANCE AND FOREIGN MINISTRY CONTACTS HAD TOLD ECONOFFS EARLIER THAT THE NETHERLANDS WOULD GO ALONG WITH SUCH A DEAL PROVIDED (A) THAT IT WAS DONE IN THE PARIS CLUB FRAMEWORK, AND (B) THAT NON PARIS CLUB CREDITORS PROVIDED COMPARABLE TREATMENT. REGARDING TERMS, PAULINE EIZEMA OF THE MFA'S PARIS CLUB OFFICE (WHICH FALLS UNDER THE DEVELOPMENT MINISTER'S JURISDICTION, SINCE DEBT CANCELLATIONS ARE CHARGED ON A STRAIGHT EURO-FOR-EURO BASIS TO THE DEVELOPMENT BUDGET) TOLD ECONOFFS THAT THE NETHERLANDS' PREFERENCE AT THE PARIS CLUB WOULD BE FOR A CONSOLIDATION FIRST OF ACCUMULATED ARREARS AND SECONDLY OF NEAR-TERM DEBT SERVICE FLOWS, STRETCHING OUT TO PERHAPS THREE YEARS. THE DUTCH WOULD NOT BE IN FAVOR OF A STOCK OF DEBT TREATMENT AT THIS POINT, SHE INDICATED.
RUSSEL